Bridging the Distance

Using the Balanced Scorecard to Move from Leadership Strategy to Employee Action and Organizational Results

DR. MARY-JO HALL

> "The tremendous benefits of implementing the Balanced Scorecard far exceed the amount of effort required to create it for your organization. It provides a robust change framework that will help DoD to achieve the Revolution in Business Affairs."
>
> –Michael Hall
> APMC 00-2 Graduate

FIGURE 1. **The Balanced Scorecard**

Program Managers are schooled and savvy in a variety of management planning and control tools for projects, i.e. acquisition strategy, risk management, and earned value management. These tools offer a disciplined, structured way of tracking projects or programs from one milestone to another throughout the acquisition process.

Like all tools they have underlying theoretical constructs and implementation techniques. For example, in risk management, the first step is to assess all possible areas of risk within the parameters of cost, schedule, and performance. Once these are identified, they are assessed by two components. The first is the probability of occurrence and the second is the severity of the impact if it does occur.

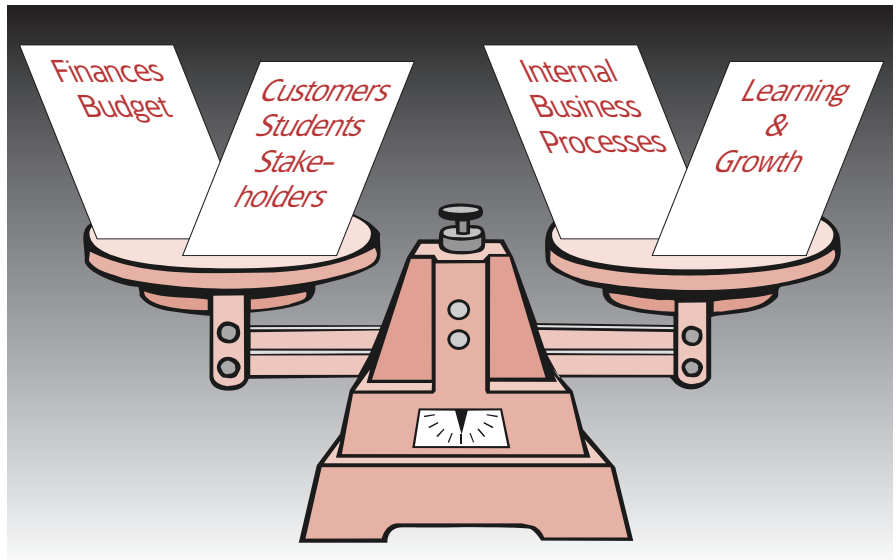From this analysis, probabilities are rated as, generally, low-, medium-, or high-risk areas. This can be viewed as a form of the cause-and-effect relationship analysis. For both high and medium risks, handling options are identified, generally under the categories of controlling, assigning, avoiding, or transferring.

The next step is monitoring the risk using a variety of metrics. This monitoring of the risk is done using a variety of software programs that allow for easy reporting. While most program offices use the risk management tool to track projects, they do not have a robust tracking system to manage strategic change such as the change needed to meet new customer demands or to improve programs in order to lower costs.

Many organizations around the world have found success with a relatively new mechanism or tool called the Balanced Scorecard (BSC). The value of this tool is that it acts as a bridge in helping an organization get from grand and lofty strategies developed by the leadership to the daily actions of employees.

The Balanced Scorecard — What Is It?

The Balanced Scorecard (Kaplan and Norton, 1996) is an organizational change framework designed to improve the ability of an organization to focus and improve results. This is accomplished by developing high-priority actions and resources (especially budget) to align with the strategies. The BSC is a mechanism to **drive change** by measuring future-oriented strategies that are tied to aggressive improvement targets. It builds on the strategic planning

Hall is a professor at the Defense Acquisition University working with both the Advanced Program Management Course (APMC) and the Executive Program Management Course (EPMC). She is a subject matter expert for Strategic Planning and the Balanced Scorecard. Her faculty page is located at **http://faculty.dsmc. dsm.mil**. Also contributing to this article were **Howard Rohm**, CEO of Foundation for Performance Management and **Michael Hall**, a graduate of APMC 00–2, DSMC, and currently a Department of Navy employee.

process and uses performance measures to track organizational performance. In this way, it bridges the distance between the strategies designed by leadership and the actions taken on a daily basis by employees to produce results for the organization.

The balanced scorecard also promotes increased communications within the organization. The communication process is enhanced because of a unique lexicon and the development of operational definitions.

Corporate performance historically has been measured by financial measures. The balanced scorecard started as a measurement concept, developed in the 1990s, to meet the need to measure organizational performance in both financial and non-financial ways.

The pioneering work on the balanced scorecard was completed under studies sponsored by a dozen or so U.S. companies concerned with success in a global and fast-changing internationally competitive environment (Kaplan and Norton, 1996). The genesis for research was the difficulty organizations have implementing strategic plans and the proclivity to focus on near-term financial results, rather than on the drivers of future growth and performance.

Most organizations have a standard process for developing a strategic plan and do this successfully, albeit not without angst and pain. Generally, however, these organizations do not have a mechanism to execute the plan or to bridge the distance between strategy and operational processes employees do everyday. The organization completes the plan through a grueling off-site process attended by the leadership and a follow-on "catch-ball" approach to create extensive feedback loops for the draft plan. Once the plan is finally developed and communicated, the leadership gets overwhelmed with daily "firefighting," and the plan goes on a shelf. A change in leadership causes another iteration of the planning cycle. This continues on and on ad nauseum without enhancing operational performance.

The extensive research on translating strategy into performance results performed by Robert Kaplan and David Norton at the Harvard Business School was published in a variety of articles and finally with the landmark book, *The Balanced Scorecard*, in 1996. The Kaplan and Norton approach started with a focus on performance measurement and evolved into a complete management system for translating strategy into action. With further experience, learning, and refinement, it is now a comprehensive organizational change framework

> ## The BSC process is like a bridge linking the strategies developed by leadership to the work performed each day. The key is that the organization must do something to get from the ambiguity of strategy to the tasks and activities of daily work.

with over 500 organizations throughout the world benefiting from its use (**www.bscol.com**).

The basic Kaplan and Norton model for the Balanced Scorecard views the organization from four basic perspectives: *financial, customer, internal processes, and employee learning and growth*. Using these perspectives, the model asks the following questions (Kaplan and Norton, 1996):

Q
To succeed with our vision, how should we look to our customers?

Q
To succeed financially, how should we look to our shareholders?

Q
To satisfy our shareholders and customers, at what internal business processes must we excel?

Q
To succeed with our vision, how shall we sustain our capacity to learn and grow?

Implementation of balanced scorecard in the public sector usually places the customer perspective first, rather than the financial perspective as found in the private sector. This change to the model emphasizes the service nature of government programs.

Similar to a scorecard used in sports, the **SCORECARD** in balanced scorecard refers to a means of recording and communicating organizational performance and success. The **BALANCED** in the balanced scorecard has several meanings. These include balance among the types of measures, i.e., financial and non-financial; balance among leading and lagging performance indicators; balance among outcome (achieving results) and output (activities) measures; balance among horizontal measures (using resources and delivering what is required); and vertical accountability (producing and cultivating resources).

The balanced scorecard is built on this balance in reporting scores, but it goes a step further and focuses the organization through linking strategic objectives and themes that drive the organizational success. Additionally, the BSC approach focuses and consolidates activities by aligning organizational strategies and using a prioritization process to focus on the high-impact areas.

How Do We Build and Implement a Balanced Scorecard?
While this article talks about the BSC as a process, the BSC is, in fact, a scorecard (Figure 1).

There are several ways to build the BSC, and the answer to "Which one do I use?"

is the classic Program Management answer, "It depends." It depends on where the organization is in terms of strategic planning and implementation of the plan. As a bridge between the strategy and the employee actions, the BSC is neither the strategy, the strategic planning process, nor the business plan. It is a mechanism that forces cause-and-effect analysis and builds links between the strategy and the daily work. However, if there is no strategic plan and an organization is starting from scratch, it can force strategic planning (vision, values, mission, goals, and strategic processes).

BSC Stages

While there are several approaches to BSC, all are divided into phases or stages. Regardless of the approach selected, these stages are needed to build the BSC. Each stage has entry requirements and exit criteria. If the entry requirements have not been met, it is imperative to go back a step and enter there.

Building on the bridge analogy, you can not get from strategy to actions and results **WITHOUT** crossing the bridge or without doing the work involved in each of the stages. Nothing can save you from the learning, thinking, and actions required by the BSC framework. Without consciously going through all of the steps, the organization is not implementing the BSC.

The model used for this article is a hybrid six-stage approach used recently at the Defense Acquisition University (DAU). It is derived from the standard Kaplan and Norton (1996) approach. At DAU, the BSC was initiated after an intensive and thorough strategic planning visioning process.

The stages of this approach include:

1. Mobilizing the leadership.
2. Developing the architecture.
3. Linking and aligning the parts.
4. Mapping the initiatives.
5. Rolling-out and cascading throughout the organization.
6. Continuing to focus and improve the strategy.

Stage 1

Mobilizing the leadership (Stage 1) from the top implies that the most senior leader is committed to the structure and discipline required by the BSC. This means the top leadership is willing to cross the bridge and engage in the learning necessary to understand BSC at an implementation level. Reading, briefings, browsing the Web, seminars, and conferences are available to help with the learning. Leaders also need to understand their role in the change process. Active leadership and a *burning platform* (to highlight the sense of urgency) are needed to help the entire organization get over the bridge.

Stage 2

Making strategy everyone's job starts with the leadership developing the **strategic architecture** (Stage 2). Decisions must be made on what **perspectives** are appropriate for the organization. The standard four are financial, customers, internal processes, and learning and growth. Some organizations add "stakeholder." Many government organizations find that they use a budget perspective rather than a financial one. Many organizations are not clear about their customer segments and their stakeholders.

Part of building the architecture is to build reference points of reference for the perspectives. To "see" the organization as the customer sees it, leadership needs to articulate a **Value Proposition** (Kaplan and Norton, 1996). The Value Proposition is described as this equation:

Value = Product and Service Attributes + Image + Relationships.
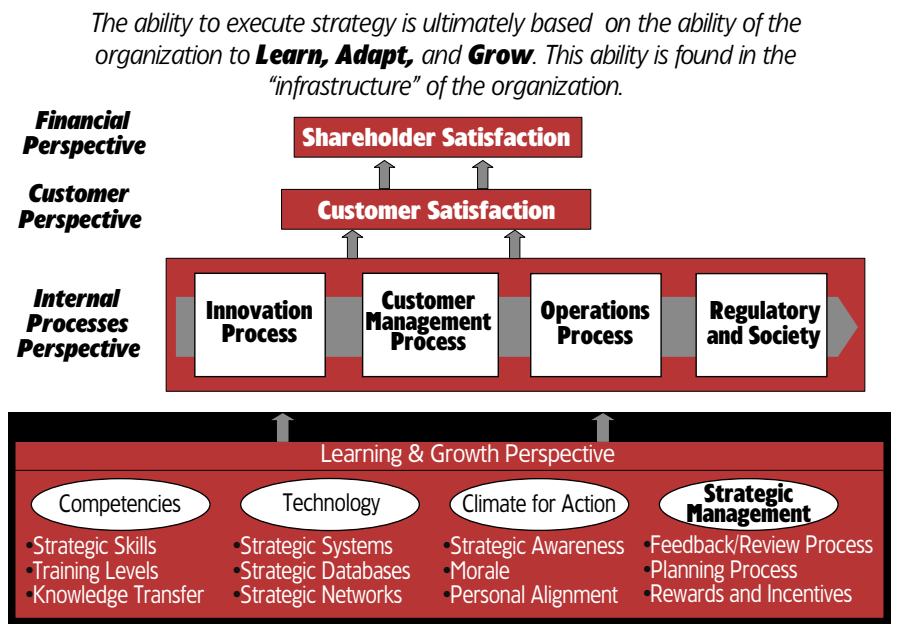
The performance drivers for customer satisfaction include time (rapid response), quality (defect-free products and services), and price (not just at purchase, but over the lifetime) (Kaplan and Norton, 1996).

To understand how internal processes create value for customers, the leadership develops the organizational **Value Chain**. The value chain maps how work gets done in terms of processes. This includes developing new work, completing the work, and delivering the work.

To determine a reference point for enhancing the people, tools, and culture, those things that enable employees to learn and grow need to be identified, i.e., **Enablers**. These include core competencies, technologies, and organizational culture.

Finally, the reference point for the financial or budget perspective is the **Span**

FIGURE 2. **Strategic Map**

*The ability to execute strategy is ultimately based on the ability of the organization to **Learn, Adapt,** and **Grow**. This ability is found in the "infrastructure" of the organization.*

of Control. For government, this is the budget and its allocation parameters such as funding, costs, and savings.

The next step in this stage is determining **objectives** for each of the perspectives. The objectives are the basic building blocks for the strategy and enable the "sifting" to start. This is similar to panning for gold and helps develop an organizational focus. Objectives are brainstormed for each perspective. Synthesis and discussion assist in clarifying and narrowing the objectives. Through an interview and rank voting process with a cross section of leaders, the objectives are sifted to no more than three for each perspective.

Stage 3
Once each perspective has only three objectives, the **linking and aligning** (Stage 3) commences. This process continues narrowing the focus and the priorities. The perspectives are lined up horizontally, starting with the financial on the top and proceeding down through customer, internal process, and ending with Learning and Growth on the bottom.

Starting at the bottom with the Learning and Growth perspective, an interrelationship digraph is completed for all of the objectives. This determines if there is a critical path from the Learning and Growth objectives through the perspectives to the financial. (Note: For most nonprofit, the customer and the financial order are reversed.)

Analysis of the interrelationship digraph reveals the **HIGH IMPACT OBJECTIVES** (HIO). Focusing on the HIOs will enable the organization to leverage what is done to achieve the most "bang for the buck" in the shortest amount of time.

The next step in this stage is to assign both **leading and lagging** measures for each of the objectives. This includes defining the unit of measure, how it is collected, and when it is collected. Targets need to be assigned for at least the first and second years and maybe the third, depending on the strategic plan. Most organizations discover that some

measures apply to two or more objectives. These strategic measures become key performance drivers and describe the intent of the strategy.

Stage 4
Once the objectives and the measures are clear, the next stage is developing and **mapping initiatives** (Stage 4). The work involved in the previous three stages is necessary to enter into the fourth stage. Initiatives are the action projects that are used to evaluate strategic direction and to test the strategic hypotheses. Each initiative needs an owner and resource commitments (time and

> **Nothing can save you from the learning, thinking, and actions required by the Balanced Scorecard (BSC) framework. Without consciously going through all of the steps, the organization is not implementing the BSC.**

money.) Initiatives may be further decomposed into tasks or actions. Once the initiatives are developed, the strategic map is basically complete (Figure 2).

Stage 5
The **rollout plan** (Stage 5) includes communication, implementation techniques, and feedback mechanisms. Some organizations cascade the BSC through individual business units; others do it by themes. Again, there are options, and each organization needs to consider the unique goals. Another aspect of the rollout is the linking of budget and resources to the initiatives. Still another linkage is to individual development plans (IDP) and personal learning.

Stage 6
The final stage for building the BSC is a **continual focus on strategy implementation and improvement** (Stage 6). This includes the feedback loops for reporting the status and for assessing the BSC process itself. It also includes continued testing of the hypothesis inherent in the objectives through a variety of feedback loops. If the organization meets the objective, will it have the outcome desired?

The Benefits of the Balanced Scorecard
What are the benefits of using the Balanced Scorecard as a management performance system or a change framework? Besides the simple statement that "It works!" the benefits of the Balanced Scorecard include an easier way to decompose the vision into strategies, objectives, measures, targets, and initiatives by examining each of the four perspectives.

The BSC is a comprehensive view of the entire organizational system with the financial measures looking at **yesterday,** the customer and internal measures looking at **today,** and the learning and growth measures looking at **tomorrow.** Moreover, the BSC provides a basis for extensive discussion about the future of the organization using a common language. There is an emphasis on creating and testing the hypotheses about the cause-and-effect relationships among and between objectives and consequent actions — and, as a result, the validity of the organizational strategies.

Lessons Learned from Implementation in DoD
Several DoD acquisition organizations have implemented tailored versions of the BSC. During the APMC 00-2 Elective program, APMC graduates and Navy employees Mike Hall and Harry Shelley presented an overview of the BSC and the lessons learned from their experiences. The highlights of their efforts include:

- Very early in the Balanced Scorecard process a clearly thought-out mission, vision, and top-level strategy emerges

that can be easily communicated and understood by everyone at all levels of the organization.

- The workforce begins to change their thinking from being "stovepiped" or focused at a department perspective, to thinking at a "program level." The program level thinking is balanced across the four BSC perspectives of customer, financial, internal process, and learning and growth.

- Once created by leadership, the top-level BSC Strategy map energizes people and serves as a strong communication vehicle that leadership can use to help everyone understand the key program objectives and how they interrelate. This sharing of leadership knowledge via the strategy map results in empowered action by people at the working level. An example from the Navy program was quickly structuring skill-based training and better understanding and action on implementing Acquisition Reform.

- The "Learning and Growth Perspective" is foundational to achieving the results desired from using the scorecard. A good notional set of scorecard objectives for this area includes Climate for Action, Invest in Ourselves, Knowledge Sharing, and Strategic Management.

- New and better processes will quickly be thought out and placed into action. An example from the Navy program is the creation of a "Customer Satisfaction" process that accomplished the "Customer Theme" objectives.

- Setting measures and targets for strategy map objectives will crystallize the understanding of the definitions and will communicate leadership expectations clearly to managers. Managers will then be able to create a lower-level scorecard for each objective at the task or initiative level that will help each employee understand expected performance, relationships between tasks, and how their efforts contribute to the overall program.

- Creative thinking and learning increase as employees work through the building of their first scorecard.

- Implementation of the Balanced Scorecard stimulates knowledge management efforts and helps employees "Embrace Change."

- Increased understanding by employees leads them to take the initiative to do things that are unexpected and to put extra effort into their daily work.

The Naval Undersea Warfare Center Division (NUWC) Newport has been using the Balanced Scorecard approach since early 1996. One lesson learned from the first iteration was that that it had too many measures, with some being tactical and many lagging rather than leading. The proof of the effectiveness of the BSC in increasing communications within NUWC is indicated by the results of recent employee opinion surveys.

One statement, *"I am sufficiently informed about the Division Newport's Strategic Plan,"* received a 74 percent affirmative rating. Another statement, "*I feel that I have the ability to make a contribution in building Division Newport to be an effective 21st century organization,"* had an 83 percent affirmative rating.

BSC Process — A Bridge

The BSC process is like a bridge linking the strategies developed by leadership to the work performed each day. The key is that the organization must do something to get from the ambiguity of strategy to the tasks and activities of daily work. The BSC has a proven history of getting from one side to the other. Unfortunately, crossing the bridge from strategy to tasks takes time, effort, and energy.

There is a great deal of learning that is required in getting across. However, once this learning takes place, the organization is more knowledgeable about their customers, their target goals, their direction, and their results. Additionally, this framework allows the organization to think differently about the services they provide. It encourages creativity and adaptability.

Editor's Note: The author welcomes questions or comments on this article. Contact her at **hall_maryjo@dau.mil**.

R E F E R E N C E

The Balanced Scorecard, Robert Kaplan and David Norton, Harvard Business School Press, 1996.

B I B L I O G R A P H Y

"Having Trouble With Your Strategy? Then Map It*!" Harvard Business Review*, September/October 2000, pp. 167-176.

Keeping Score, Mark Graham Brown, Quality Resources, May 1996.

Measuring Performance, Dr. Bob Frost, Fairway Press, 1998.

Performance Drivers, Niles-Goram Olve, Jan Roy, and Magnus Wetter, Wiley, March 23, 1999.

"Putting the Balanced Scorecard to Work," Kaplan and Norton, *Harvard Business Review*, September/October 1993.

"The Balanced Scorecard – Measures That Drive Performance," Kaplan and Norton, *Harvard Business Review,* January/February 1992.

The Basics of Performance Measurement, Jerry L. Harbour, May 1997.

Vital Signs, Steven M. Hronec, Arthur Anderson & Co., 1993.

R E L A T E D   W E B   S I T E S

http://wwwbscol.com
http://www.npr.gov
http://www.balancedscorecard.org
http://www.apqc.org
http://www.fpm.com
http://www.bsc4gov.com

BALANCED SCORECARD LEXICON

Customer — The recipients, user, and beneficiaries of a product or service. Customers can be internal and external.

Goal — A specific desired level of performance at a particular point in time. A goal includes the measure, the level of performance, and a time component.

HIOs — High Impact Objectives; the objectives that will result in leveraging the effort; they are based on the results of the interrelationship digraph between all objectives.

Initiative — Action projects that are used to evaluate strategic direction and test strategic hypotheses. Initiatives need time and resource commitments and should be aligned with the organization's strategy.

Measure — A performance metric, preferably quantitative, of an organization's relative success in achieving the desired results, objectives, and operational goals. Measures help communicate the behavior required to achieve objectives. Each measure should include the units of measurement. For each objective, there should be both a leading and a lagging measure. A lag measure provides historical data on what was accomplished. A leading measure predicts future performance and leads one to assume that success will be achieved.

Mission — A concise, inspirational statement of purpose, including fundamental values and beliefs, that reflects the unique nature of an organization. A mission statement is built from an understanding of an organization's products, services, customers, markets, values, and strengths.

Objective — A measurable statement of strategic intent that indicates how strategy will be made operational. Objectives are the basic building blocks for the overall organizational strategy and are critical to success.

Perspective — A view of an organization from a specific vantage point. Typically, financial, customer, learning and growth, and internal business processes are used to describe the organization's span of influence. A perspective is a component into which the strategy is decomposed to drive implementation.

SBU — Strategic Business Unit; an organizational division that focuses on individual business in a functional organization that has more than one business.

Scorecard — A graphic depiction of the Strategic Map in one dimension (it does not show cause-and-effect relationships specifically). Generally, it includes the perspectives, objectives, measures, initiatives, and owners. Some include tasks, themes, and budget.

Span of Control — The area(s) over which one has the ability to determine what will be done and how it will be done.

Strategy — "The relationship between the company's vision and the operational plans to be followed on a day-to-day basis ... the ground rules, events, and decisions required for the company to proceed from the present situation to the one desired in the future." (Olve, et al, p. 59)

Strategic planning — A collection of cause-and-effect relationships that show the linkage among key objectives.

Strategic thinking — Using analysis and a structured process to determine and document the decisions made about the future of the organization; a general road map to a future state.

Strategic thinking — Using synthesis and other critical thinking tools to design the future.

SWOT — Analysis focusing on Strengths, Weaknesses, Opportunities, and Threats

Target — The expected level of performance of a measure at a specific time. Thresholds (upper and lower control limits) should be specified for each measure. Stretch targets drive business to higher levels of performance.

Vision — A broad statement of future intent clearly defining the results that the organization is seeking to achieve.

NOW ONLINE!

PERFORMANCE SUPPORT AND LEARNING MODULES FOR THE AT&L WORKFORCE

The Defense Acquisition University is developing a comprehensive set of online performance support and learning modules for the AT&L workforce that are accessible through the DAU Acquisition Support Center knowledge portal at: **http://center.dsmc.dsm.mil/job_support_and_CoPs/support_modules/acquisition_management_topics.htm**

The Balanced Scorecard module is an example of where the DAU is going to provide real tools to help the workforce do their jobs. The BSC module can be accessed directly at **http://leadership.dsmc.dsm.mil/** and through the Support Center in the Acquisition Program Management and Leadership area.

DAU Publishes *Fast-Track Initiatives*

The Defense Acquisition University (DAU) is restructuring and building a strategic plan to rethink DoD's business processes, reduce costs, improve efficiency, and prepare the Acquisition, Technology and Logistics Workforce for new ways of doing business.

To communicate their efforts, DAU has published a new *DAU Fast-Track Initiatives* brochure, which details how the University intends to go about developing new ways of doing business. These initiatives, once implemented, should lead to better business practices throughout DoD. Viewed as "The Way Ahead for Acquisition Training," the DAU's Fast-Track Initiatives include:

- Headquarters, DAU collocation with the Defense Systems Management College at Fort Belvoir, Va.
- Revision of PM Training Curriculum
- Critical Thinking and Case-Based Curriculum
- Faculty Development and Currency
- Budget Reassessment and Realignment
- Functional Integrated Process Team/ Overarching Integrated Process Team (FIPT/OIPT) Jump-Start
- Supporting the new "5000" Changes
- Knowledge Management
- Change Management Center
- Strategic Alliances

Through improved acquisition training and reorganization of DAU staff functions, DAU will offer the DoD acquisition community an acquisition education, training, and career development program that meets their educational needs well into the 21st century.

For Fast-Track Initiatives progress, visit our Web site at **www.dau.mil/pubs/misc/dau_fast-track.htm** or **www.dsmc.mil/pubs/misc/dau_fast-track.htm**.